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MONTANA TAXES
AND
INDUSTRIAL TAX INCENTIVES

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1980

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MONTANA INDUSTRIAL TAX INCENTIVES

(1) R.C.M. Section 84-301.19

A 77% reduction in property tax during each of the first three years of operation is available to firms qualifying as "new industry". This classification includes industries which mine, process, or, in general, manufacture (as that term is defined in the 1972 Standard Industrial Classification Manual) new products.

(2) R.C.M. Section 84-7510.1

By petition class 1 and 2 cities (those with populations greater than 5,000) may implement a program which allows a property tax reduction of up to 50% during the first ten years following new construction or expansion. The reduction applies only to the new facility and is gradually phased out during the period between the eleventh and twentieth year. No property may simultaneously qualify for this treatment and that of the preceding paragraph (1).

(3) R.C.M. Section 84-202

Freeport merchandise shall be exempt from taxation. "Freeport Merchandise" means those stocks of merchandise manufactured or produced outside Montana, which are in transit through Montana and consigned to a warehouse or other storage facility, public or private, within Montana, for storage in transit prior to shipment to a final destination outside the state. Stocks of merchandise do not lose their status as freeport merchandise because while in the storage facility they are assembled, bound, joined, processed, disassembled, divided, cut, broken in bulk, relabeled or repackaged.

(4) R.C.M. Sections 84-1519 through 84-1526

A 1% corporate license (income) tax credit, based upon the total new wages paid, is provided for the first three years to new and expanding industries engaged in the mechanical or chemical transformation of materials or substances into new products. "Expanding" means to expand a present operation sufficiently to increase total permanent jobs by 30%.

(5) R.C.M. Section 11-4111

A one-mill levy, upon an affirmative vote from a majority of qualified voters, is authorized for purposes of economic development within a city, county or town. Funds derived may be used for developing industrial parks buildings to house manufacturing operations, conducting preliminary feasibility studies, and other activities associated with economic development.

(6) R.C.M. Section 84-429.7

For three years after the introduction of an irrigation system, farm land is taxed at its unirrigated value without regard to any increases in productivity brought about by the presence of the system.

(7) R.C.M. Section 84-4960

Individuals and corporations which qualify as small business corporations may use one-fifth of their Federal Investment Tax Credit as a credit against state income tax liability or corporation license tax liability for tax years beginning on or after January 1, 1977.

TAXATION IN MONTANA

INTRODUCTION

A little more than one-half of the total tax revenue raised within the state comes from the property tax. Nearly all of this money is expended for education and services at the local level. Following this source of revenue in descending order of magnitude are the individual income tax (about one-fifth of all tax revenue), motor fuel taxes (about one-tenth), liquor taxes, cigarette taxes, severance taxes, and corporation license tax (each about one-twentieth). Montana does not have a general sales tax.

THE PROPERTY TAX

The State Department of Revenue is charged with administration of the property tax. All property except agricultural land has an assessed value which is equal to its market value. Agricultural land is valued relative to its productive capacity. The task of assessing property which lies entirely within the geographical boundaries of one of Montana's fifty-six counties belongs to the County Assessor. County Assessor is an elective office but the incumbent serves as an agent of the State Department of Revenue and is paid by the state.

Property which is intercounty or intrastate in nature (e.g.: railroads, pipelines, and public utilities) is assessed centrally by the Department of Revenue and a value allocated to the tax base of each county in proportion to the amount of such property within that county.

Property is statutorily classified for purposes of determining its taxable value. The Department of Revenue determines the proper classification of each item of property subject to the right of appeal by the taxpayer. The following table illustrates the classification scheme and gives the percentage of assessed value which is used as taxable value in each class.

CLASS	DESCRIPTION	TAXABLE VALUE AS PERCENT OF MARKET VALUE
1	Rights of entry to explore for minerals.	100%
2	Net proceeds of mines except metal and coal mines.	100%
3	Gross proceeds of coal strip mines.	45%
4	Gross proceeds of underground coal mines.	33 1/3%
5	Moneyed capital and bank shares.	30% & 7%
6	Agricultural land (Market value in this case is defined to be productive value).	30%
7	Centrally assessed utility allocations after deduction of locally assessed property except rural telephone companies and cooperatives; all property not contained in the other eighteen classes.	16%
8	Tools, implements, and machinery (agricultural and otherwise) except large farm machinery. Tools and machinery of rural telephone companies; gas and other engines, boilers, and threshing machines; harness and saddlery.	13%
9	Automobiles, trucks, and powered motor vehicles except mobile homes, motorcycles, aircraft, camper trailers, and truck campers; commercial and office furniture.	13.3%
10	Ski lifts and tows, manufacturing and mining machinery, fixtures and supplies (except those qualifying for new industrial status); camper trailers and truck campers.	12%
11	All land except agriculture; all improvements except those in classes fifteen and eighteen; trailers affixed to land; mobile homes except those held by dealers and distributors and those in class fifteen.	12%*
12	Boats and watercraft, aircraft, motorcycles, large farm machinery and implements.	11%
13	Incremental increase in the value of real estate produced by remodeling.	2.4% (1st y) 4.8% (2nd y) 7.2% (3rd y) 9.6% (4th y) 12% (5th y)*
14	Property (poles, lines, transformers, meters,) of rural telephone companies; tools, implements & machinery used to repair non-manufacturing and non-mining machinery; transformers, meters, gas measuring and metering equipment, compressor equipment owned by centrally assessed utilities; livestock and poultry and unprocessed products of both.	8%
15	Former "Class 8" exemption of real estate and improvements for low income elderly.	6%*

TAXABLE VALUE
AS PERCENTAGE
OF MARKET VALUE

CLASS	DESCRIPTION	
16	Business inventories, heavy construction equipment used by "New Industries".	4.2%
17	Unprocessed agricultural products on the farm or in storage (except perishables and livestock poultry).	3.5%
18	Former "Class 5" exemption for disabled vets; new industrial property.	2.8%*
19	Annual Gross Proceeds of Metal Mines	3%

*To be prorated downward in 1978-79 in order to absorb effect of reappraisal of real property.

Property exempt from the property tax includes that which belongs to governmental units, churches and residences of clergy, hospitals and charitable institutions, household goods and furniture, freeport merchandise, unprocessed perishable fruits and vegetables when owned and stored by the producer, non-perishable unprocessed agricultural products in the possession of the producer for less than seven months following harvest, livestock under the age of nine months, and moneys and credits.

The actual property tax paid is a function of the taxable value and the mill levy in the particular county in which the property is located. For example, suppose a town lot with no improvements has a market value of \$5,000. Its assessed value would be \$5,000 and its taxable value would be \$600 ($= \$5,000 \times .12$). If the current levy at the location of the lot is 250 mills, the property tax due is \$150 per year ($= \$600 \times \frac{250}{1000}$). This tax is payable directly to the County Treasurer of the county where the property is located. The bulk of the proceeds of this tax is used to finance local government and school systems with only about 4% of the total revenue raised turned over to state government.

The taxpayer may appeal the assessment made on his property through a hierarchy consisting of administrative boards (county and state tax appeal boards), state district courts, and the state supreme court.

INDIVIDUAL INCOME TAX

Montana's Individual Income Tax is similar to the Federal Personal Income Tax. The calculations required of the taxpayer resemble those on the Federal Return although in computing adjusted gross income there are differences between allowable deductions on the Federal and State returns. Taxpayers may itemize deductions from adjusted gross income or they may elect to take a standard deduction equal to 10% of the adjusted gross income (subject to a limitation to a maximum of \$500 on a separate return and \$1,000 on a joint return). A taxpayer is entitled to an exemption of \$650 for each dependent claimed. An additional exemption of \$650 is granted to a taxpayer and his spouse in each instance where either has reached the age of sixty-five or is blind. Currently there is a 10% surtax added to the Montana Individual Income Tax.

The following schedule displays the current Montana Individual Income Tax rate structure.

MONTANA TAXABLE INCOME	TAX
Up to \$ 1000	2% of taxable income
\$ 1000 - \$ 2000	\$ 20 + 3% of taxable income over \$ 1000
\$ 2000 - \$ 4000	\$ 50 + 4% of taxable income over \$ 2000
\$ 4000 - \$ 6000	\$ 130 + 5% of taxable income over \$ 4000
\$ 6000 - \$ 8000	\$ 230 + 6% of taxable income over \$ 6000
\$ 8000 - \$10000	\$ 350 + 7% of taxable income over \$ 8000
\$10000 - \$14000	\$ 490 + 8% of taxable income over \$10000
\$14000 - \$20000	\$ 810 + 9% of taxable income over \$14000
\$20000 - \$35000	\$1350 + 10% of taxable income over \$20000
\$35000 and over	\$2850 + 11% of taxable income over \$35000

CORPORATION LICENSE TAX

The Corporation License Tax is an excise tax on the privilege of engaging in business as a corporate entity. A certain class of corporations is exempt from this tax. The members of this class can be broadly characterized as corporations which are not organized for profit.

The Corporation License Tax is 6 3/4% of the corporation's net income from sources within the state for the reporting period. In general, in computing its net income, a corporation is allowed the same deductions from its Montana gross income as are permitted under the Federal Internal Revenue Code to the extent that such deductions are related to the generation of gross income from Montana sources. Federal Corporation Income Tax is not allowed as a deduction in determining net income. However, operating losses can be carried forward or back. For those corporations which also do business outside the state, specific methods for allocating gross income and deductions from gross income to Montana operations are given in the Montana Codes. All corporations subject to Corporation License Tax must pay a minimum \$50 tax.

If a corporation derives income from both within and without the state, if its sole business activity in Montana consists of making sales, if it neither owns nor rents real or tangible personal property in the state, and if its annual gross volume of sales within Montana does not exceed \$100,000, then it may elect to pay one-half of one percent of its gross sales in lieu of the Corporation License Tax.

Montana law provides that corporations which meet certain criteria may elect to be classified as "small business corporations". Such entities are not subject to the Corporation License Tax. Instead each shareholder in a qualifying corporation which elects this provision is allowed to include his share of the net income or net loss in his Montana individual adjusted gross income. A

corporation electing treatment under this provision is, however, subject to a minimum tax of \$10.

OTHER LICENSES AND TAXES

The following table lists a number of the other licenses required and taxes levied by the State of Montana which affect business enterprises. (The reader is cautioned that the descriptions included are necessarily incomplete and should not be relied upon as definitive of the various categories.)

	DESCRIPTION	FEE OR RATE
Aviation Fuel Tax	Tax on all aviation fuel distributed in the state. Paid by the distributor.	One cent per gallon
Cement and Gypsum Producers License	Applies to manufacturers and producers of cement, gypsum, gypsum plaster, land plaster, stucco, wallboard, and other products of cement or gypsum.	Twenty-two cents per ton of cement Five cents per ton of gypsum
Cement and Gypsum Dealers License Tax	Applies to the same category of products as the Producers License tax but, in this case, the tax is on products imported into the state for sale rather than those manufactured here.	License Fee \$1 Twenty-two cents per ton of cement Five cents per ton of gypsum
Coal Retailers License Tax	Applies to coal imported and sold in the state.	License Fee \$1 Five cents per ton
Coal Mines Severance Tax	Applies to coal produced in the state. The first five thousand pounds produced in each calendar quarter is exempt from tax.	<u>BTU Rating 7000 or less</u> 12 cents per ton or 20% of contract price whichever is greater. <u>BTU Rating 7001 to 8000</u> 22 cents per ton or 20% of contract price whichever is greater.

	DESCRIPTION	FEE OR RATE														
Coal Mines Severance Tax (Continued)		<u>BTU Rating 8001 to 9000</u> 34 cents per ton or 30% of contract price which- ever is greater. <u>BTU Rating over 9000</u> 40 cents per ton or 30% of contract price which- ever is greater														
Contractors Gross Receipts Tax and License	Applies to contractors and sub- contractors who act to perform public construction work for federal, state, or local govern- ment units or agencies thereof at a cost exceeding \$1000. Total paid under this class may be used as a credit against Corporation License Tax or the Contractor's Individual Income Tax.	<table><tr><th><u>License</u></th><th><u>Fee</u></th></tr><tr><td>Class A (no limitation on cost of project)</td><td>\$200</td></tr><tr><td>Class B (cost of any single project not to exceed \$50,000)</td><td>\$100</td></tr><tr><td>Class C (cost of any single project not to exceed \$25,000)</td><td>\$ 10</td></tr></table> <p>In addition each contractor is required to pay one percent of the gross proceeds from his public contracts during the year for which the license is issued.</p>	<u>License</u>	<u>Fee</u>	Class A (no limitation on cost of project)	\$200	Class B (cost of any single project not to exceed \$50,000)	\$100	Class C (cost of any single project not to exceed \$25,000)	\$ 10						
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Diesel Fuel	Applies to all diesel fuel used within the state. Paid by the user.	Ten cents per gallon														
Gasoline Distributor's License Tax	Applies to all gasoline distributed within the state. Paid by dis- tributor.	Eight cents per gallon.														
Metalliferous Mines License Tax	Applies to all who operate mines from which metals, precious gems or semi-precious gems are extracted. Gross value is determined by average quotations of the price of products from publications of established authority. (e.g. Engineering and Mining Journal of New York City)	<table><tr><th colspan="2"><u>License Fee \$1 plus</u></th></tr><tr><th><u>Gross Value</u></th><th><u>Percentage of Gross Value</u></th></tr><tr><td>First \$100,000</td><td>0.15%</td></tr><tr><td>next \$150,000</td><td>0.575%</td></tr><tr><td>next \$150,000</td><td>0.86%</td></tr><tr><td>next \$100,000</td><td>1.15%</td></tr><tr><td>over \$500,000</td><td>1.438%</td></tr></table>	<u>License Fee \$1 plus</u>		<u>Gross Value</u>	<u>Percentage of Gross Value</u>	First \$100,000	0.15%	next \$150,000	0.575%	next \$150,000	0.86%	next \$100,000	1.15%	over \$500,000	1.438%
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	DESCRIPTION	FEE OR RATE																											
Micaceous Mineral Mines License Tax	Applies to all who operate mines from which vermiculite, perbrite, kerrite, maconite, or other micaceous minerals or hydrous silicates are produced.	Five cents per ton of mineral extracted																											
Express Companies License Tax	Applies to gross receipts allocable to business done in Montana.	Four percent of gross receipts																											
Freight Line Company Tax	Applies to gross earnings allocable to Montana business operations.	Five and one-half percent of gross earnings																											
Retail Store License Tax	Applies to all owners of stores maintaining an inventory of goods, wares, or merchandise.	<table> <tr> <td>Number of Stores</td><td>Gross Receipts</td><td>Gross Receipts</td></tr> <tr> <td>Licensed by Owner</td><td>less than \$350,000</td><td>greater than \$350,000</td></tr> <tr> <td>1st store</td><td>\$11.00</td><td>\$ 11.</td></tr> <tr> <td>2nd store</td><td>13.50</td><td>5%</td></tr> <tr> <td>3rd store</td><td>21.00</td><td>10%</td></tr> <tr> <td>4th store</td><td>28.50</td><td>15%</td></tr> <tr> <td>5th store</td><td>36.00</td><td>20%</td></tr> <tr> <td>6 or more stores</td><td>44.50</td><td>25%</td></tr> <tr> <td></td><td>(per store)</td><td></td></tr> </table>	Number of Stores	Gross Receipts	Gross Receipts	Licensed by Owner	less than \$350,000	greater than \$350,000	1st store	\$11.00	\$ 11.	2nd store	13.50	5%	3rd store	21.00	10%	4th store	28.50	15%	5th store	36.00	20%	6 or more stores	44.50	25%		(per store)	
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6 or more stores	44.50	25%																											
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Wholesale Store License Tax	Applies to all wholesale stores. If a retail store is maintained in the same establishment, the owner must also pay the Retail Store License Tax.	\$43.50 per store																											
Oil and Gas Producer's Severance Tax	Applies to all petroleum and natural gas extracted within the state.	<p>Oil:</p> <p>2.1% of the first \$6,000 of the oil produced from each lease or unit and 2.65% of the gross value of production from the lease or unit in excess of \$6,000.</p> <p>Natural Gas:</p> <p>2.65% of the gross value produced from each lease or unit.</p>																											

OTHER CONSIDERATIONS

Every employer in Montana who pays wages is required to deduct and withhold tax which is determined by using tax tables issued by the Department of Revenue. The tax withheld is credited against each employee's individual income tax obligation. In most cases an employer is required to pay the amounts withheld and file a report with the Department on a quarterly basis. All employers must file an annual report of wages paid and tax withheld.

All employers having at least one employee are subject to Montana's Unemployment Compensation law. Employers are required to contribute between 0.5% and 3.1% of their taxable payrolls. The percentage rate used for this calculation depends upon the employer's record of unemployment experience.

